

## Internal Revenue Service

Department of the Treasury  
Washington, DC 20224

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August 14, 2009

### LEGEND:

Company A =

Company B =

Company C =

Company D =

Company E =

Company F =

Company G =

State X =

State Y =

Date 1 =

Date 2 =

Date 3 =

Date 4 =



Date 5 =

a =

b =

c =

d =

e =

f =

Law Firm =

Dear :

This responds to a letter dated February 9, 2009, on behalf of Company A requesting an extension of time under § 301.9100-1 of the Procedure and Administration Regulations to make an election under § 856(l) of the Internal Revenue Code to treat Company C as a Taxable REIT Subsidiary of Company A.

### FACTS

Company A is a State X business trust, formed on Date 1. Company B, a State Y limited partnership, owns a percent of the stock of Company A. Company C is a State Y corporation, formed on Date 2. Company A has elected to be taxed as a real estate investment trust ("REIT") under the Code beginning with the year that ended on Date 3.

Company A conducts all its operations through Company D, a State Y limited liability company, formed on Date 1. Company A is a member of Company D and owns b percent of the interests in Company D. Company D is treated as a partnership for federal income tax purposes.

On Date 4, Company A, operating through Company D, made an investment in a joint venture to acquire a hotel. For that purpose, Company D formed and owns c percent of Company E, a disregarded entity for federal income tax purposes. Company E acquired a d percent interest in Company F. Company F through Company G owns e percent of Company C. As a result, Company A owns approximately f percent of Company C.

Company F is required to operate and manage its subsidiaries holding an interest in the hotel in a manner that causes Company A to maintain its REIT status under the



Code. Company F relied on advice of Law Firm that had been Company A's legal counsel. To preserve Company A's status as a REIT, Law Firm advised the parties that Company G needed to form a TRS. For that purpose, Company C was formed and entered into a master lease of the hotel. Consistent with the parties' intent, Law Firm filed a Form 8875 on behalf of Company C on Date 5. In preparing Form 8875, Law Firm inadvertently listed Company D as the electing REIT, instead of Company A. In addition, Law Firm inadvertently identified the effective date of the election as Date 2, the date on which Company C was incorporated, rather than Date 4, the date on which Company A first acquired an indirect ownership interest in Company C.

Company A and Company C make the following additional representations:

1. The request for relief was filed by Company A and Company C before the failure to make regulatory elections was discovered by the Service.
2. Granting the relief requested will not result in Company A or Company C having a lower tax liability in the aggregate for all years to which the regulatory election applies than that they would have had if the election had been timely made (taking into account the time value of money).
3. Company A and Company C did not seek to alter a return position for which an accuracy-related penalty has been or could have been imposed under section 6662 of the Code at the time they requested relief and the new position requires or permits a regulatory election for which relief is requested.
4. Being fully informed of the required regulatory election and related tax consequences, Company A and Company C did not choose to not file the election.

## **LAW AND ANALYSIS**

The Ticket to Work and Work Incentives Improvement Act of 1999, P.L. 106-170, included a change, for tax years beginning after December 31, 2000, to the REIT provisions of § 856(d). This change allows a REIT to form a Taxable REIT Subsidiary that can perform activities that otherwise would result in impermissible tenant service income. The election under § 856(l) is made on Form 8875, "Taxable REIT Subsidiary Election." Officers of both the REIT and the Taxable REIT Subsidiary must jointly sign the form, which is filed with the IRS Service Center in Ogden, UT.

Section 856(l) of the Code provides that a REIT and a corporation (other than a REIT) may jointly elect to treat such corporation as a Taxable REIT Subsidiary. To be eligible for treatment as a taxable REIT subsidiary, § 856(l)(1) provides that the REIT must directly or indirectly own stock in the corporation, and the REIT and the corporation must jointly elect such treatment. The election is irrevocable once made, unless both the REIT and the subsidiary consent to its revocation. In addition, § 856(l) specifically provides that the election, and any revocation thereof, may be made without the consent of the Secretary.



In Announcement 2001-17, 8 I.R.B. 716, the Service announced the availability of new Form 8875, Taxable REIT Subsidiary Election. According to the Announcement, this form is to be used for tax years beginning after 2000 for eligible entities to elect treatment as a taxable REIT subsidiary. The instructions to Form 8875 provide that the subsidiary and the REIT can make the election at any time during the tax year. However, the effective date of the election depends upon when the Form 8875 is filed. The instructions further provide that the effective date on the form cannot be more than 2 months and 15 days prior to the date of filing the election, or 12 months after the date of filing the election. If no date is specified on the form, the election is effective on the date the form is filed with the Service.

Section 301.9100-1(c) of the regulations provides that the Commissioner has discretion to grant a reasonable extension of time to make a regulatory election (defined in § 301.9100-1(b) as an election whose due date is prescribed by regulations or by a revenue ruling, a revenue procedure, a notice, or an announcement published in the Internal Revenue Bulletin), or a statutory election (but no more than 6 months except in the case of a taxpayer who is abroad), under all subtitles of the Internal Revenue Code except subtitles E, G, H, and I.

Section 301.9100-3(a) through (c)(1)(i) sets forth rules that the Internal Revenue Service generally will use to determine whether, under the particular facts and circumstances of each situation, the Commissioner will grant an extension of time for regulatory elections that do not meet the requirements of § 301.9100-2. Section 301.9100-3(b) provides that subject to paragraphs (b)(3)(i) through (iii) of § 301.9100-3, when a taxpayer applies for relief under this section before the failure to make the regulatory election is discovered by the Service, the taxpayer will be deemed to have acted reasonably and in good faith; and § 301.9100-3(c) provides that the interests of the government are prejudiced if granting relief would result in the taxpayer having a lower tax liability in the aggregate for all years to which the regulatory election applies than the taxpayer would have had if the election had been timely made (taking into account the time value of money).

## **CONCLUSION**

Based on the information submitted and representations made, we conclude that Company A and Company C have satisfied the requirements for granting a reasonable extension of time to elect under § 856(l) to treat Company C as a taxable REIT subsidiary of Company A, effective as of Date 4. Accordingly, Company A and Company C are granted 60 days from the date of this letter in which to file a corrected Form 8875 to make the intended TRS election.

This ruling is limited to the timeliness of the filing of the Form 8875. This ruling's application is limited to the facts, representations, Code sections, and regulations cited



herein. No opinion is expressed with regard to whether Company A qualifies as a REIT under subchapter M of the Code.

No opinion is expressed with regard to whether the tax liability of Company A and Company C is not lower in the aggregate for all years to which the election applies than such tax liability would have been if the election had been timely made (taking into account the time value of money). Upon audit of the federal income tax returns involved, the director's office will determine such tax liability for the years involved. If the director's office determines that such tax liability is lower, that office will determine the federal income tax effect.

The ruling contained in this letter is based upon information and representations submitted by the taxpayer and accompanied by a penalty of perjury statement executed by an appropriate party. While this office has not verified any of the material submitted in support of the request for rulings, it is subject to verification on examination.

Except as expressly provided herein, no opinion is expressed or implied concerning the tax consequences of any aspect of any transaction or item discussed or referenced in this letter

This ruling is directed only to the taxpayer requesting it. Section 6110(k)(3) of the Code provides that it may not be used or cited as precedent.

In accordance with the Power of Attorney on file with this office, a copy of this letter is being sent to your authorized representatives.

Sincerely,

Alice M. Bennett  
Chief, Branch 3  
Office of Associate Chief Counsel  
(Financial Institutions & Products)

Enclosures:

Copy of this letter  
Copy for section 6110 purposes

cc: